SOME CONTRIBUTIONS OF THE WAR TO OUR KNOWLEDGE OF MONEY AND PRICES (*Abstract*)

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The war is a crucible in which economic theories, among other things, are being tested.

The evidence is by no means all in as yet, but such as is now available seems to point to the following conclusions:

1. The bullionist theory (that the value of paper money and bank credit is dependent on the value of the bullion in which it is redeemed and can never rise above that value any more than water can rise above its source) is incorrect. In May, 1916, the English paper pound was worth more in France than the gold pound. In Sweden, since the virtual cessation of the free coinage of gold at the end of 1916, there has been a premium on paper.

2. The war will help to a realization of the fact that there may be inflation even when there is no stoppage in specie payments, and that inflation is to be measured by index numbers of commodity prices rather than by the premium on gold. This will be as great a step forward as was the realization which followed the Napoleonic wars and the famous English Bullion Report that the premium on gold did represent depreciation of paper. In short, while the Napoleonic wars led people to measure paper money in terms of gold, the present great war will lead people to measure both paper and gold in terms of commodities. The latter measurement is now possible by means of index numbers. These have already convinced most students that gold has depreciated in the United States.

3. The war will demonstrate the close connections between government loans and inflation of paper and deposits.

4. It will show that inflation, even when not strictly monetary inflation but mere credit inflation, will raise prices.

5. In the absence of complete data to afford a quantitative measurement, we may make a qualitative comparison between the different countries. We find that, almost without exception, the more the issue of government loans the more the increase of paper money and deposit currency, and that the greater these issues the greater the rise in prices (both wholesale and retail), as well as the greater the fall of the monetary unit in international ex-

change. The following is substantially the order of the various countries in respect to all of these conditions, the first in the list having the least inflation and the last the greatest: United States, Sweden, Switzerland, Denmark, Italy, England, Norway, France, Germany, Austria, Russia.

Professor Cassell of Sweden has shown that the relative changes in the price levels of some countries, where measurement is possible, have varied in proportion to the quantities of money.

6. The question—if it be a question—whether a rise of prices is the cause or effect of an increased quantity of money is on the road to inductive settlement. We find that with the great and sudden changes in quantity of money there have been corresponding changes in the price level and that the latter have followed the former. The "lag" in England, as shown by Nicholson in the *Journal of the Royal Statistical Society*, has been apparently about three months. The diagram which I gave in the December issue of the AMERICAN ECONOMIC REVIEW shows a lag in this country of less than two months.

7. This war will probably be looked back to as one in which vast issues of bonds to the general public, far beyond the capacity of the public to absorb them out of savings, have had the effect, through raising the cost of living, of abstracting from those with "fixed" incomes a large fraction thereof. This is a form of "social injustice," the significance of which is that if we cannot levy sufficient taxes to really pay for the war the residue will be taken from those with fixed incomes in the disguised form of the high cost of living. This high cost of living is taking from the savings-bank depositor several times the interest he is supposed to receive and the same is true of the bondholder, including the holders of government bonds. Possibly this disguised tax may amount to several hundred per cent of the income from bonds and of the total income of those whose income is in bonds only, as for instance the beneficiaries of trust funds